

AUDITED FINANCIAL STATEMENTS

LOUTIT DISTRICT LIBRARY

June 30, 2004

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	3
MANAGEMENT DISCUSSION AND ANALYSIS	4-5
FINANCIAL STATEMENTS	
Governmental Funds Balance Sheet/Statement of Net Assets	6
Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance/Statement of Activities	7
NOTES TO FINANCIAL STATEMENTS	8-17
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedules	19-21

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INDEPENDENT AUDITOR'S REPORT

Loutit District Library
Grand Haven, Michigan

I have audited the financial statements of the governmental activities of the Loutit District Library, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Loutit District Library's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements listed in the table of contents present fairly in all material respects, the financial position of the governmental activities of the Loutit District Library at June 30, 2004, and the results of the operations of such activities for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

My report of comments and recommendations has been submitted under date of September 16, 2004.


September 16, 2004

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

Using this Management's Discussion and Analysis

This annual report is intended to supplement the District Library's financial statements. The "look" of the financial statements has changed due to the District Library's adoption of the GASB 34 accounting pronouncement. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District Library and present a longer-term view of the District Library's finances. Fund financial statements (i.e. the Statement of Governmental Fund Revenue, Expenditures and changes in Fund Balance and the Governmental Fund Balance Sheet) tell how library services were financed in the short-term, as well as what remains for future spending.

The District Library as a Whole

The District Library's total net assets are \$3,635,012 as of June 30, 2004. Unrestricted net assets, which represents net assets that can be used to finance day to day operations, comprise 32% of that total. The current level of unrestricted net assets for our governmental activities stands at \$1,163,188 or about 76% of current year operating expenditures. Board restricted net assets of \$1,209,289 are attributable to the Capital Projects Fund. The balance of net assets (\$1,262,535) are capital assets net of related debt.

Comparative data is not required during the first year of reporting under the requirements of GASB 34. Therefore, a comparative statement of net assets and statement of activities is not part of the Management's Discussion and Analysis.

The District Library's net assets continue to remain healthy. The District Library has enough cash to fund normal operating expenses for the next twelve months.

Governmental Activities

The District Library's total revenues in the General Fund were \$1,750,008, an increase over the prior year of just under 2%. Property tax revenue from the district library millage, which contributes 85% of the total revenue, increased by 2.5% over last year. Penal fine income decreased by 4% from the prior year.

General Fund expenditures increased this year, largely due to the continued rise in personnel costs. This is attributable mostly to the commencement of MERS pension contributions which totalled \$56,170 for this past year. This level of contributions is expected to continue in future years.

The other major factor in the growth of expenditures was due to the outlay of funds for the capital campaign, bond proposition costs and bond proposition election for a proposed building project, all recorded in the Capital Projects Fund. The bonding proposition was not approved by the voters and the District Library continues to explore other options to address our continuing need for space.

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

The District Library's Funds

Budget comparison schedules for the District Library's funds are on page's 19, 20 and 21, following the notes to the financial statements. The District Library creates funds as needed to manage its revenues for specific purposes as well as to account for certain activities.

The District Library's largest fund for the year ended June 30, 2004 is the General Fund. The General Fund receives the District Library's general revenues and pays the general operating expenditures. There is also a Capital Project Fund which records the activities attributable to the planning of a building project. The debt service fund records the activities concerning the payment of general obligation debt principal and interest.

General Fund Budgetary Highlights

Over the course of the year, the District Library Board amended the budget to take into account events during the year. The major amendments in the General Fund reflected decreases in revenue items and less than anticipated expenditures in a number of areas, the most significant of which were professional fees, printing and capital outlay.

Overall, District Library expenditures stayed below budget. The General Fund's fund balance increased by \$210,781 from a year ago to a total of \$1,190,954 at June 30, 2004.

Capital Assets and Debt Retirement

At June 30, 2004 the District Library had \$3,382,314, before accumulated depreciation of \$1,392,027, invested in a broad range of capital assets - land, buildings, books and other collections and furniture and equipment. We continue to pay down our general obligation debt for the land purchase according to schedule.

Economic Factors and Next Year's Budgets

The District Library's budget for the next fiscal year projects property taxes, which is the largest source of revenue, to increase slightly. State aid should remain steady while penal fines are anticipated to continue to decrease. Personnel costs, which remain the largest expenditure, will continue to increase slightly but no new positions are expected to be added.

As the District Library Board continues to consider options to address the District Library's space needs, expenditures may occur that have not been anticipated in the budget. However, funds are available in the Capital Projects Fund fund balance to cover the unanticipated costs.

Contacting the District Library's Management

This financial report is intended to provide our citizens, taxpayers, patrons and other interested parties with a general overview of the Library's finances and to show the District Library's accountability for the revenue it receives. If you have questions about this report or need additional information, we welcome you to contact Sandie Knes, Library Director, at (616) 842-5560, extension 212.

Loutit District Library
Governmental Funds Balance Sheet/Statement of Net Assets
June 30, 2004

	<u>Modified Accrual Basis</u>			<u>Full Accrual Basis</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets				
Cash and cash equivalents	\$1,249,903	\$ 804,822	\$ -	\$2,054,725
Accounts receivable	78	-	-	78
Pledges receivable (net) (Note F)	-	403,592	-	403,592
Capital assets (net) (Note C)	-	-	1,990,287	1,990,287
Total Assets	\$1,249,981	\$1,208,414	\$1,990,287	\$4,448,682
Liabilities				
Accounts payable	\$ 4,806	\$ 846	\$ -	\$ 5,652
Internal balances	1,721	(1,721)	-	-
Accrued liabilities	52,500	-	-	52,500
Deferred revenue (Note F)	-	403,592	(403,592)	-
Long-term liabilities				
Note payable-due within one year (Note E)	-	-	76,512	76,512
Note payable-due after one year (Note E)	-	-	651,240	651,240
Accumulated employee benefits (Note A 7)	-	-	27,766	27,766
Total Liabilities	\$ 59,027	\$ 402,717	\$ 351,926	\$ 813,670
Fund Balance/Net Assets				
Fund Balances-Unreserved				
Board Restricted - Capital Improvements	-	805,697	(805,697)	-
Unrestricted	1,190,954	-	(1,190,954)	-
Total Fund Equities	1,190,954	805,697	(1,996,651)	-
Total Liabilities and Fund Balance	\$1,249,981	\$1,208,414		
Net Assets				
Invested in capital assets-net of related debt			1,262,535	1,262,535
Unreserved				
Board restricted			1,209,289	1,209,289
Unrestricted			1,163,188	1,163,188
Total Net Assets			3,635,012	3,635,012

The accompanying notes are an integral part of this statement.

Loutit District Library
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund
Balance/Statement of Activities
Year ended June 30, 2004

	Modified Accrual Basis		
	General Fund	Capital Projects Fund	Debt Service Fund
Revenues:			
Property taxes	\$ 1,501,578	\$ -	\$ -
State grants	35,098	-	-
Interest and rentals	36,875	6,733	-
Contributions	21,726	155,723	-
Pledge contributions	-	-	-
Fines and forfeits	153,501	-	-
Other revenue	1,230	315	-
TOTAL REVENUES	1,750,008	162,771	-
Expenditures:			
Salaries and wages	563,970	-	-
Employee benefits	192,606	-	-
Books and magazines	133,807	-	-
Library supplies	33,753	-	-
Lakeland Library Cooperative	39,082	-	-
Equipment maintenance	16,583	-	-
Buildings and grounds	85,871	-	-
Professional fees	16,860	34,300	-
Insurance	15,955	-	-
Telephone	2,275	-	-
Printing and publishing	12,254	645	-
Fund raising	-	65,783	-
Elections	-	23,435	-
Tax collection fees	5,959	-	-
Postage	4,357	546	-
Capital outlay	23,924	11,345	-
Depreciation	-	-	-
Professional development	8,157	-	-
Memberships and dues	3,592	-	-
Transfers to other libraries	36,790	-	-
Refunds	-	116,233	-
Miscellaneous	8,433	658	-
Debt service:			
Principal	-	-	72,945
Interest	-	-	39,154
TOTAL EXPENDITURES	1,204,228	252,945	112,099
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	545,780	(90,174)	(112,099)
Other financing sources (uses)			
Operating transfers in	-	222,900	112,099
Operating transfers out	(334,999)	-	-
Total other financing sources (uses)	(334,999)	222,900	112,099
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	210,781	132,726	-
Fund balances - July 1	980,173	672,971	-
Fund balances - June 30	\$ 1,190,954	\$805,697	\$ -

The accompanying notes are an integral part of this statement.

Full Accrual Basis

<u>Adjustments</u>	<u>Statement of Activities</u>
\$ -	\$ 1,501,578
-	35,098
-	43,608
-	177,449
281,513	281,513
-	153,501
-	1,545
<u>281,513</u>	<u>2,194,292</u>
-	563,970
1,987	194,593
(124,253)	9,554
-	33,753
-	39,082
-	16,583
-	85,871
-	51,160
-	15,955
-	2,275
-	12,899
-	65,783
-	23,435
-	5,959
-	4,903
(35,269)	-
186,539	186,539
-	8,157
-	3,592
-	36,790
-	116,233
-	9,091
(72,945)	-
-	39,154
<u>(43,941)</u>	<u>1,525,331</u>
325,454	668,961
-	334,999
-	<u>(334,999)</u>
-	-
325,454	668,961
<u>1,312,907</u>	<u>2,966,051</u>
<u>\$1,638,361</u>	<u>\$3,635,012</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Loutit District Library (District Library) was established on February 24, 1999, pursuant to Act No. 24 of the Public Acts of 1989 by the participating municipalities of Grand Haven Charter Township, City of Grand Haven, City of Ferrysburg, Robinson Township, and Grand Haven Area Public Schools. The District Library provides library services to the general public.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Loutit District Library.

The Statement of Activities demonstrates the degree to which the direct expenses of providing library services are offset by the revenues designated to fund those services. All of the revenues of the General Fund of the District Library are intended to pay for those direct expenses, except as designated by the Library Board.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Collections from the 2003 Summer and Winter property taxes are considered to be revenues of the year ended June 30, 2004. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

Property taxes, pledged contributions, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation-Cont.

recognized as revenue of the current fiscal period, when applicable. All other revenue items are considered to be available only when cash is received by the District Library.

The various funds are presented in these financial statements as follows:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the district library.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition and/or construction of major capital facilities.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

4. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the Statement of Net Assets column in the government-wide financial statements. Capital assets are defined by the District Library as assets with an initial individual cost of \$500 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Leasehold improvements	20 years
Collections	3 - 20 years
Equipment	7 years
Furniture and Fixtures	10 years

5. Budgets and Budgetary Accounting

The District Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or about June 1, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting-Cont.

- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through passage of a resolution.
- d. The District Library director is authorized to transfer budgeted amounts within funds within any activities, except for certain activities which require Library Board authorization.
- e. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- f. Appropriations for all funds lapse at the end of the fiscal year.
- g. The budget has been adopted on a total fund basis.

Budgeted amounts are as originally adopted and as amended by the District Library Board as of June 30, 2004.

6. Property Taxes

Property taxes when levied attach as an enforceable lien on property. Summer taxes are levied on July 1 and are payable through September 14. Winter taxes are levied on December 1 and are payable through February 14. The property taxes are billed and collected by various municipalities, which then remit the District Library's designated portion on a semi-monthly basis. The District Library levied a tax of .9864 mills in the participating municipalities.

7. Compensated Absences

District Library employees earn vacation and sick leave in varying amounts based on length of service. Unused vacation pay and sick leave may accumulate and be carried over to a subsequent year, subject to restrictions. Management estimates that its current liability for unpaid vacation pay, sick leave and personal time is \$41,720 at June 30, 2004.

The noncurrent portion of accumulated sick pay liability is reflected under long-term liabilities in the Statement of Net Assets. The amount is \$27,766 as of June 30, 2004.

8. Encumbrances

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District Library.

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

10. Risk Management

The Loutit District Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as medical benefits provided to employees. The District Library has purchased commercial insurance for medical benefits claims and for claims relating to general liability, excess liability, physical damage (equipment, buildings and contents) and worker compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

11. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All non-cash donations are recorded at their estimated fair market value as of the date of the contribution.

12. Cash Equivalents

The District Library considers all short-term investments with an original maturity of three months or less to be cash equivalents.

NOTE B - CASH

The District Library's cash at June 30, 2004 is reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>		
	<u>General</u>	<u>Capital</u>	
	<u>Fund</u>	<u>Projects</u>	<u>Total Primary</u>
		<u>Fund</u>	<u>Government</u>
Cash	\$1,249,903	\$ 804,822	\$2,054,725

At June 30, 2004 the carrying amount of the District Library's deposits was \$2,054,725. The bank balance of the District Library's deposits was \$2,077,942. Of the bank balance, \$200,000 was covered by federal depository insurance and the remainder was uninsured.

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE C - CAPITAL ASSETS

Capital asset activity of the District Library for the year ended June 30, 2004 was as follows:

	Balance July 1 <u>2003</u>	Addi- tions	Dele- tions	Balance June 30 <u>2004</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$1,061,845	\$ -	\$ -	\$1,061,845
Building (in progress)	<u>87,743</u>	<u>11,345</u>	<u>-</u>	<u>99,088</u>
	1,149,588	11,345	-	1,160,933
Capital Assets Being Depreciated				
Leasehold improvements	74,917	-	-	74,917
Collections	1,724,351	124,253	32,885	1,815,719
Equipment	165,664	25,024	-	190,688
Furniture and Fixtures	<u>140,057</u>	<u>-</u>	<u>-</u>	<u>140,057</u>
Subtotal	<u>2,104,989</u>	<u>149,277</u>	<u>32,885</u>	<u>2,221,381</u>
Less Accumulated Depreciation for				
Leasehold improvements	4,079	3,746	-	7,825
Collections	988,026	166,353	32,885	1,121,494
Equipment	108,152	16,189	-	124,341
Furniture and Fixtures	<u>138,116</u>	<u>251</u>	<u>-</u>	<u>138,367</u>
Subtotal	<u>1,238,373</u>	<u>186,539</u>	<u>32,885</u>	<u>1,392,027</u>
Net Capital Assets Being Depreciated	<u>866,616</u>	<u>(37,262)</u>	<u>-</u>	<u>829,354</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$2,016,204</u>	<u>\$(25,917)</u>	<u>\$ -</u>	<u>\$1,990,287</u>

NOTE D - PENSION PLANS

The District Library participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible employees of the District Library. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE D - PENSION PLANS - CONTINUED

Employer contributions are not required until the funded ratio is at a level below 110%. As of December 31, 2003, the funded ratio for the District Library was at 80.7%. Employer contributions at 13.89% and 13.72% of current monthly payroll are scheduled to commence in July, 2004 and 2005, respectively in order to bring the funded ratio levels up to the mandated ratio. These amounts were obtained from the actuarial reports provided by MERS dated December 31, 2002 and 2003.

For the year ended June 30, 2004, the District Library was required to make employer contributions at 13.44% of monthly payrolls to MERS totalling \$56,170. The required contribution was determined by actuarial valuation at December 31, 2002, using the entry age normal cost method. The actuarial assumptions include (a) 8% investment rate of return (net of administrative expenses) (b) projected salary increases ranging from 4.5% to 8.66% per year and 4.5% per year cost-of-living adjustments. The actuarial value of MERS assets is determined using techniques that smooth the effects of short term volatility in the market value of investments over a five-year period. The District Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30 year period.

Three Year Trend Information as of December 31 (date of the actuarial valuation report) follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual Pension Cost (paid through December 31)	\$ 0	\$ 0	\$ 27,110
Percentage of APC Contributed	100	100	100
Net Pension Obligation	\$ 0	0	0
Actuarial Value of Assets	\$ 431,672	441,332	499,658
Actuarial Accrued Liability (AAL)	\$ 458,813	531,020	618,976
Unfunded AAL (UAAL)	\$ 27,141	89,688	119,318
Funded Ratio	94.1	83.1	80.7
Covered Payroll	\$ 275,001	382,664	404,889
UAAL as a Percentage of Covered Payroll	9.9	23.4	29.5

Deferred Compensation Plan

The District Library has an IRC Section 457 deferred compensation pension plan in which all eligible employees may elect to participate. The District Library will match employee contributions up to 2% of gross wages. The amount of employer contributions for the year ended June 30, 2004, was \$5,750.

NOTE E - DEBT

This General Obligation Note Payable was incurred for the purchase of land for the

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE E - DEBT - CONTINUED

possible construction of a new library building. It is an unsecured installment note from a bank. The full faith and credit of the District Library is pledged for its repayment.

The installment note activity for the year ended June 30, 2004 can be summarized as follows:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2002 Land Installment Note	4.89%	5-01-12	\$800,697	\$(72,945)	\$727,752	\$76,512

Annual debt service requirements to maturity for the above obligation are as follows:

<u>Year End</u>	<u>Governmental Activities</u>	
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 76,512	\$ 35,587
2006	80,253	31,846
2007	84,178	27,921
2008	88,294	23,805
2009	92,612	19,487
2010-2012	<u>305,903</u>	<u>30,393</u>
Total	<u>\$727,752</u>	<u>\$169,039</u>

NOTE F - PLEDGES RECEIVABLE - CAPITAL PROJECTS FUND

Pledges receivable at June 30, 2004 are as follows:

Pledges receivable - June 30, 2003	148,091	
Pledges made - 2003-2004	<u>1,364,983</u>	
		<u>1,513,074</u>
Pledges received - 2002-2003	8,759	
- 2003-2004	<u>146,964</u>	
		<u>155,723</u>
		<u>1,357,351</u>
Less:		
Rescinded pledges		228,224
Rescinded and refunded pledges		116,233
Foregone pledges		<u>588,060</u>
		<u>424,834</u>
Less anticipated shrinkage (5%)		<u>21,242</u>
Pledges receivable (net)		<u>\$ 403,592</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE F - PLEDGES RECEIVABLE - CAPITAL PROJECTS FUND-CONTINUED

These pledges receivable are also recorded as deferred revenues in the liabilities section of the Governmental Funds Balance Sheet in accordance with the modified accrual basis of accounting. The deferred revenues are eliminated in the conversion to full accrual basis of accounting on the Statement of Net Assets on page 6.

NOTE G - INTERFUND OPERATING TRANSFERS

Details of interfund operating transfers at June 30, 2004, are as follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Capital Projects	\$ 222,900	General	\$ <u>334,999</u>
Debt Service	<u>112,099</u>		
	\$ <u>334,999</u>		\$ <u>334,999</u>

NOTE H - DISTRICT LIBRARY AGREEMENT

The District Library entered into an agreement with local participating municipalities on February 24, 1999. Among other things, the Agreement provides for the District Library to pay the City of Grand Haven an amount equal to the Transfer Value of the Assets (as defined in the Agreement) if the District Library relocates, without City consent, its main library outside the City limits within the next 150 years. This obligation would be funded only on the date on which the District Library transfers its operations out of the City. The amount of the Transfer Value is subject to adjustment as of the January 1 preceding the date of relocation.

The District Library has a lease agreement with the City of Grand Haven which provided for a one-time rent payment of \$1 for the use of the existing library building. This lease expires in the year 2148. The District Library is responsible for its own maintenance, repairs, insurance coverage and its share of the utilities.

NOTE I - DESIGNATED FUND AGREEMENT

The District Library entered into an agreement with the Grand Haven Area Community Foundation on September 25, 2001, whereby the District Library transferred \$2,000 to the Foundation.

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE I - DESIGNATED FUND AGREEMENT - CONTINUED

The purpose of the District Library establishing this endowment fund was to provide funding for the support of the Loutit District Library.

Distributions may be made only from net appreciation, realized and unrealized, at the request of the District Library Advisory Committee, subject to Foundation approval and certain conditions. The Advisory Committee may also request that a portion or all of the investment return be invested in the Fund. The District Library did not receive any distributions from the Endowment Fund during the past fiscal year.

The value of this designated fund was \$2,924 as of June 30, 2004.

The District Library also has a designated fund at the Grand Haven Area Community Foundation, the purpose and use of which is to provide funding for expansion and/or renovation of Loutit District Library. This fund is called the "Loutit District Library Building Fund".

Distributions may be made from Fund income or principal at the request of the Advisory Committee, subject to Foundation approval and certain conditions. The Advisory Committee may also request that a portion or all of the investment return be invested in the Fund. The District Library did not receive any distributions from the Building Fund during the past fiscal year.

The value of this designated fund was \$4,555 as of June 30, 2004.

NOTE J - ACCOUNTING AND REPORTING CHANGE - GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments. The District Library has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). The District Library has implemented the general provisions of the statement in the current year. Certain significant changes in the accounting pronouncement include the following:

- a. The addition of a Management's Discussion and Analysis (MD & A) section providing an analysis of the Library's overall financial position and results of operations
- b. The addition of a Statement of Net Assets and Statement of Activities using full accrual accounting for all of the Library's activities

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE J - ACCOUNTING AND REPORTING CHANGE - GASB 34 - CONTINUED

- c. A change in the fund financial statements to focus on the major funds
- d. Inclusion of capital assets in the Statement of Net Assets totaling \$3,382,314 that previously would have been reported in the General Fixed Assets Account Group. These assets are reported at \$1,990,287 net of \$1,392,027 of accumulated depreciation.
- e. Inclusion of long term liabilities of \$755,518 in the Statement of Net Assets that previously would have been reported in the General Long-Term Debt Account Group.

REQUIRED SUPPLEMENTAL INFORMATION

Loutit District Library
Budgetary Comparison Schedule-General Fund
Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues:				
Property taxes	1,493,845	1,493,845	1,501,578	7,733
State grants	26,360	19,270	35,098	15,828
Interest and rentals	50,100	36,200	36,875	675
Contributions	15,000	15,000	21,726	6,726
Fines and forfeits	153,000	152,840	153,501	661
Other revenue	1,700	3,400	1,230	(2,170)
TOTAL REVENUES	1,740,005	1,720,555	1,750,008	29,453
Expenditures:				
Salaries and wages	578,935	578,935	563,970	14,965
Employee benefits	216,835	205,425	192,606	12,819
Books and magazines	137,155	137,155	133,807	3,348
Library supplies	39,205	38,735	33,753	4,982
Lakeland Library Cooperative	39,320	39,320	39,082	238
Equipment maintenance	15,500	17,000	16,583	417
Buildings and grounds	113,560	113,560	85,871	27,689
Professional fees	27,400	15,700	16,860	(1,160)
Insurance	17,575	16,000	15,955	45
Telephone	3,600	2,500	2,275	225
Printing and publishing	19,850	12,000	12,254	(254)
Tax collection fees	6,400	6,000	5,959	41
Postage	8,000	5,000	4,357	643
Capital outlay	32,705	29,205	23,924	5,281
Professional development	9,590	9,590	8,157	1,433
Memberships and dues	3,510	3,510	3,592	(82)
Transfers to other libraries	35,115	35,900	36,790	(890)
Miscellaneous	5,250	4,000	8,433	(4,433)
TOTAL EXPENDITURES	1,309,505	1,269,535	1,204,228	65,307
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	430,500	451,020	545,780	94,760
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	(335,000)	(335,000)	(334,999)	1
Total other financing sources (uses)	(335,000)	(335,000)	(334,999)	1
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	95,500	116,020	210,781	94,761
Fund balances - July 1	980,173	980,173	980,173	-
Fund balances - June 30	1,075,673	1,096,193	1,190,954	94,761

The accompanying notes are an integral part of this statement.

Loutit District Library
 Budgetary Comparison Schedule-Capital Projects Fund
 Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues:				
Contributions	\$ -	\$ 156,000	\$ 155,723	\$ (277)
Interest	-	5,950	6,733	783
Other revenue	-	320	315	(5)
TOTAL REVENUE	-	162,270	162,771	501
Expenditures:				
Professional fees	30,700	25,200	34,300	(9,100)
Printing and Publishing	8,000	2,000	645	1,355
Fund raising	78,000	66,000	65,783	217
Election	20,000	20,000	23,435	(3,435)
Postage	1,000	600	546	54
Capital outlay	305,000	23,900	11,345	12,555
Refunds	-	115,233	116,233	(1,000)
Miscellaneous	-	500	658	(158)
TOTAL EXPENDITURES	442,700	253,433	252,945	488
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(442,700)	(91,163)	(90,174)	989
Other financing sources (uses)				
Operating transfers in	222,900	222,900	222,900	-
Total other financing sources (uses)	222,900	222,900	222,900	-
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(219,800)	131,737	132,726	989
Fund balances - July 1	672,971	672,971	672,971	-
Fund balances - June 30	453,171	804,708	805,697	989

The accompanying notes are an integral part of this statement.

Loutit District Library
 Budgetary Comparison Schedule-Debt Service Fund
 Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues:	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUES	-	-	-	-
Expenditures:				
Principal on note	72,945	72,945	72,945	-
Interest expense	39,155	39,155	39,154	1
TOTAL EXPENDITURES	112,100	112,100	112,099	1
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(112,100)	(112,100)	(112,099)	1
Other financing sources (uses)				
Operating transfers in	112,100	112,100	112,099	(1)
Total other financing sources (uses)	112,100	112,100	112,099	(1)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	-	-	-
Fund balances - July 1	-	-	-	-
Fund balances - June 30	-	-	-	-

The accompanying notes are an integral part of this statement.

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

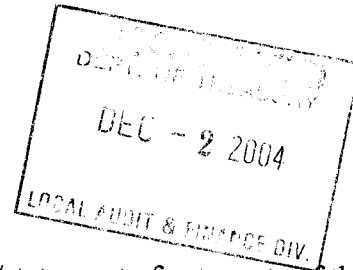
CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT

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September 16, 2004

Members of the Library Board
Loutit District Library
Grand Haven, Michigan



In connection with my examination of the balance sheet/statement of net assets of the Loutit District Library as of June 30, 2004 and the related statements of revenues, expenditures and fund balances/activities for the year then ended, I have reviewed the accounting policies and procedures employed by the District Library and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Loutit District Library for the year ended June 30, 2004, and have issued my report thereon dated September 16, 2004. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Loutit District Library to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. My study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Loutit District Library is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting procedures.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the District Library taken as a whole. However, I noted certain matters that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or

operation of the internal control structure that, in my judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition is that an adequate internal control structure does not exist for reliance thereon because of the small size of the entity resulting in a lack of segregation of duties due to the limited number of accounting personnel. However, I do not believe that the above reportable condition is a material weakness.

This report is intended solely for the use of management and the State of Michigan, Michigan Department of Treasury, and should not be used for any other purpose.

The size of the District Library's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Library Board continue to take an active role in the financial affairs of the District Library to provide oversight and independent review functions.

A budget is required by the State Constitution and by the State Statutes and is the only basis for spending. A local unit cannot budget expenditures in excess of anticipated revenues nor can it overspend its adopted budget unless a change in the budget is approved by the Library Board. The budget has been adopted on a total fund basis by the Library Board. During the past fiscal period, the Library Board overspent in some line items and underspent in others. To the extent possible, the Library Board should amend the budget to cover anticipated deficiencies.

In conclusion, I wish to state that I have had excellent cooperation from all personnel involved in the recordkeeping area and look forward to more of the same from them in the future. These comments and recommendations are intended to be only of a constructive nature as I am sure they will continue to improve your accounting system. I would be available at any time in order to discuss these comments and recommendations.

Respectfully submitted,

A handwritten signature in cursive script that reads "Calvin D. Meeusen Company C.P.A. PLLC". The signature is written in dark ink and is positioned above the printed name.

Calvin D. Meeusen, C.P.A.